

DIAMOND STATE PORT CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2005

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Independent Auditors' Report

Board of Directors
Diamond State Port Corporation

We have audited the accompanying financial statements of the Diamond State Port Corporation, a component unit of the State of Delaware, as of and for the years ended June 30, 2005 and 2004, as listed in the index. These financial statements are the responsibility of the Diamond State Port Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diamond State Port Corporation as of June 30, 2005 and 2004, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Thomas John Shopa, CPA, CFP
Charles H. Elter, CPA, CFP
Robert S. Smith, CPA
Ronald E. Derr, CPA
George G. Fournaris, CPA, CGFM

Victor S. Pelillo, CPA
Donald S. Emenheiser, CPA, CFP, MBA
Edward T. Gallagher, CPA, CIA
Dana L. Ketterer, CPA
Clyde G. Hartman, CPA, CVA, CFE
Cameron B. McDonald, CPA, CCFP
Jean D. Lloyd, CPA

Members of:
American Institute of CPA's
Private Companies Practice Section
Delaware Society of CPA's

Certified Public Accountants
A Professional Association

270 Presidential Drive
Wilmington, Delaware 19807
(302) 656-5500
(302) 656-8024 Fax

704 Rehoboth Avenue
Rehoboth Beach, DE 19971
(302) 227-4872
(302) 227-4873 Fax

www.mcbrideshopa.com

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005 on our consideration of the Diamond State Port Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report and in considering the results of our audit.

Independent Auditors' Report (Cont'd.)

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

McBride, Shogan & Co

Wilmington, Delaware
August 11, 2005

Management's Discussion and Analysis

(all amounts in \$'000)

As management of the Diamond State Port Corporation (the Port), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information detailed in the audited financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Port exceeded its liabilities at June 30, 2005 by \$117,615 (*net assets*). Included in this amount is \$99,328 invested in capital assets net of related debt; and restricted net assets of \$13,638 after providing for relevant liabilities for payments to capital projects vendors and for debt service payments.
- The Port's total net assets increased by \$13,379. The Port incurred a net loss of \$2,610 before Capital Contributions. A comparable net loss for FY 2004 was \$4,107. The loss of \$2,610 was offset by \$14,500 received from the State of Delaware for Capital improvement projects and \$1,489 reimbursed by Federal government in grants for security updates.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements are comprised of four components: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Statement of Net Assets presents information on all of the Port's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets, when read in conjunction with other data, may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Port's operations generated revenues and required expenses, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., outstanding invoices and earned but unused vacation leave).

The Statement of Cash Flows presents information showing the Port's cash receipts and payments during the fiscal period classified by principal sources and uses segregated into key elements.

Notes to the Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Basis of Accounting: The Financial Statements of the Port are prepared on the accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) applicable to governmental entities as prescribed by the Government Accounting Standards Board (GASB). The Port is a component unit of the State of Delaware. The Port's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges. The Port has adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, which provides for the consistent application of GASB pronouncements.

Financial Analysis

As noted earlier, Net Assets, when read in conjunction with other data, may serve over time as a useful indicator of the financial position of the Port. Port assets exceeded liabilities by \$117,615 at the close of the most recent fiscal year.

Port's Net Assets (\$'000)			
		2005	2004
Current and other assets	\$	21,184	\$ 9,884
Capital assets		150,465	149,923
Total assets		171,649	159,807
Long-term liabilities outstanding		48,120	49,766
Other liabilities		5,914	5,805
Total liabilities		54,034	55,571
Net assets:			
Invested in capital assets, net			
of related debt		99,328	96,826
Restricted		13,638	4,270
Unrestricted		4,649	3,140
Total net assets	\$	117,615	\$ 104,236

By far the largest portion of the Port's net assets (84%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. Increase in net assets invested in Capital assets from \$96,826 in FY 2004 to \$99,328 in FY 2005 is mainly due to equipment purchases and security infrastructure. The Port uses these capital assets to provide services to port users; consequently, these assets are *not* available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

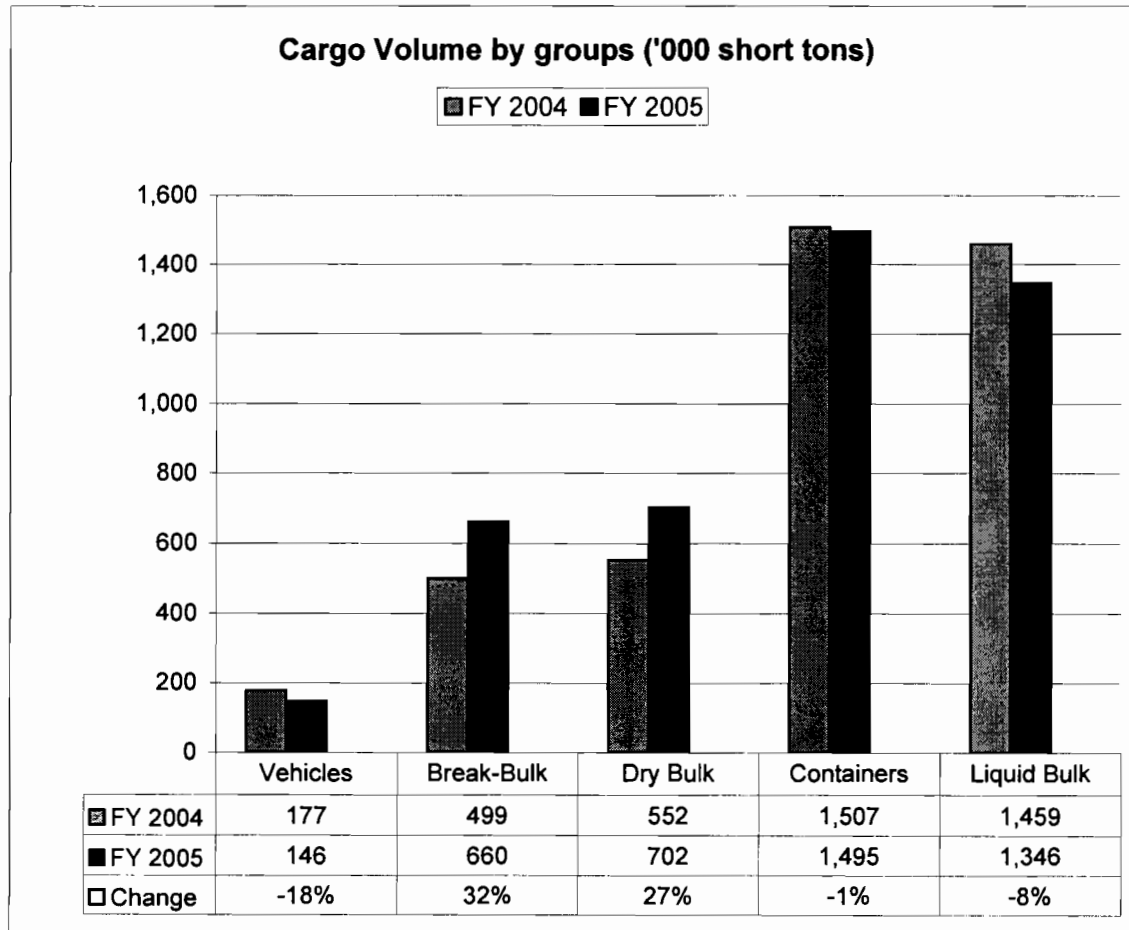
An additional portion of the Port's net assets represents resources that are subject to external restrictions on how they may be used. The value of restricted assets includes \$14,500 grants for Capital improvement projects received from the State of Delaware as reduced by expenditure and outstanding liabilities incurred while creating such restricted assets, usable only for payments for Capital projects. The balance of net assets - \$4,649 - represents *unrestricted net assets* available for any Port related business use. The increase of \$1,509 from the unrestricted net assets of \$3,140 as of June 30, 2004 reflects the income before depreciation, as well as changes to other categories of Net Assets of the Port during FY 2005.

Port Activities. Port activities reduced the Port's net assets by \$2,610. Key elements of this change are as follows:

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Cargo Handling	\$ 12,170	\$ 11,200
Dockage & Wharfage	6,633	5,947
Leasing & Storage	7,405	7,258
Other	1,536	1,303
Total Operating Revenues	<u>27,744</u>	<u>25,708</u>
Operating Expenses:		
Salaries, Wages & Benefits	15,251	14,425
Materials, Supplies & Services	8,657	7,871
Depreciation	4,343	4,322
Total Operating Expenses	<u>28,251</u>	<u>26,618</u>
Operating Income (Loss):	(507)	(910)
Interest (expense)	(2,261)	(2,628)
Interest Income	158	28
Loss on disposition of assets	-	(597)
Net Loss - before Capital Contributions:	<u>(2,610)</u>	<u>(4,107)</u>
Capital Contributions	15,989	5,363
Increase in Net Assets	<u>13,379</u>	<u>1,256</u>
Net assets – Beginning Balance	<u>104,236</u>	<u>102,980</u>
Net assets – Ending Balance	<u>\$ 117,615</u>	<u>\$ 104,236</u>

Cargo Tonnage:

A total of 4.3 million tons of cargo passed over the Port's facilities in FY 2005, an increase of 2% of the 4.2 millions handled in FY 2004.

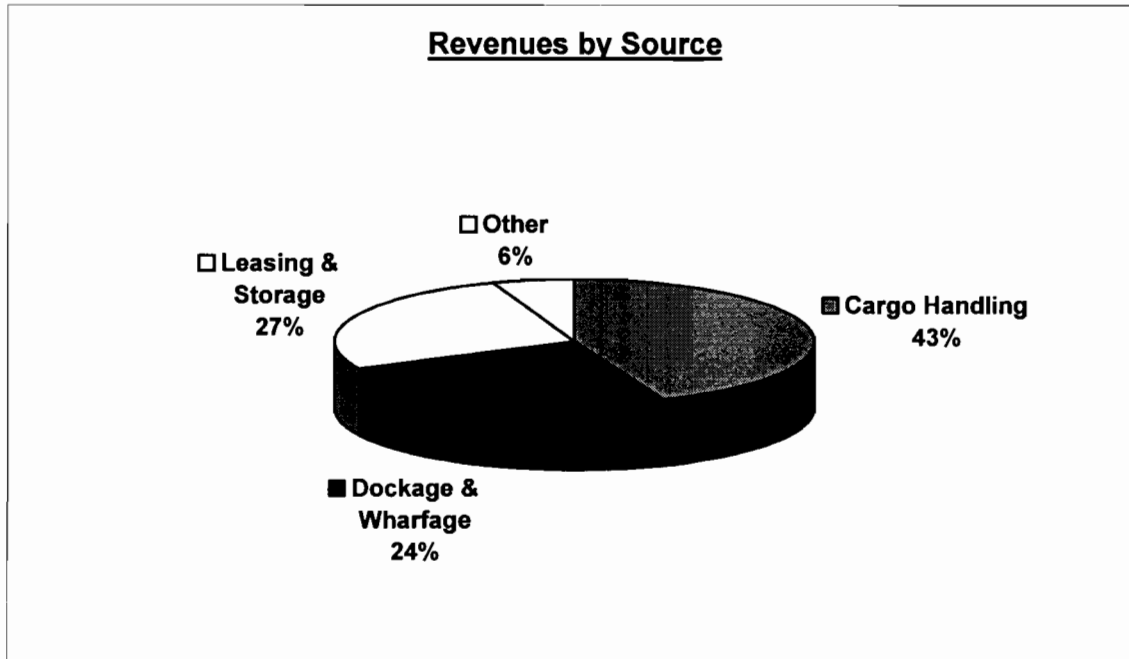


The increase in break-bulk volume resulted from increased steel volumes (following the reduction in steel tariffs) and a full year of a new paper product business. Strong manufacturing demand and a return to regular shipments of Petrocoke increased dry bulk volume. Economic conditions resulted in fewer autos being handled.

Operating Revenue:

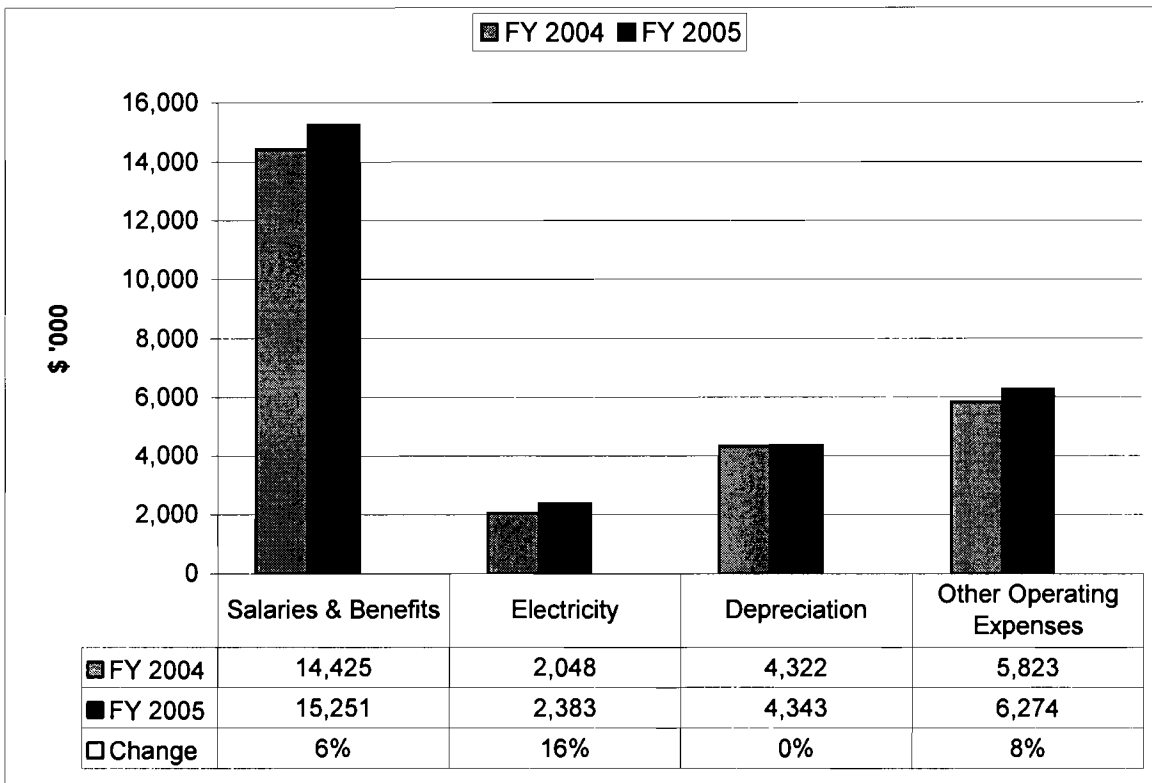
During FY 2005, the Port earned \$27,744 as operating revenue. This is an increase of \$2,036 or 7.9% from the operating revenue of \$25,708 earned in FY 2004.

Robust break bulk cargo volumes produced corresponding increases in vessel and cargo handling revenues. Additional warehouse rentals, expanded lease acreage, and negotiated rate increases improved lease and storage revenues by \$147 over FY 2004. As compared to FY 2004, equipment rental revenues increased, resulting from the increased dry bulk and break-bulk tonnage.



Operating Expenses:

Total operating expense of \$ 28,251 in FY 2005 is an increase of \$1,633 or 6% over FY 2004.



Salaries and benefit expense increased by \$826 in FY 2005. In addition to higher wage rates and benefit expenses, increase in cargo handled required more labor hours. Electricity expense was higher due to higher purchasing cost and increase in consumption for storing a larger volume of cargo. Larger repairs and maintenance costs and increased cost of purchase of petroleum products lead to the increase in other operating expenses.

Capital Asset and Debt Administration

Capital assets: The Port's investment in capital assets as of June 30, 2005, amounts to \$150,465 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, docks and wharves, and machinery and equipment. The net increase in the Port's investment in capital assets for the current fiscal year was \$542.

Major capital assets acquired during FY 2005 include the purchase of handling equipment and security infrastructure.

Capital Assets (\$ '000)			
	2005		2004
Land and Improvements	\$ 34,070	\$	33,941
Buildings	66,365		66,092
Docks & Wharves	45,054		44,793
Equipment	21,718		21,186
Streets and Utilities	3,995		3,709
Vehicles and other assets	6,853		6,762
Sub total	178,055		176,483
Accumulated Depreciation	(30,973)		(26,629)
Total	147,082		149,854
Construction in progress	3,383		69
Total	\$ 150,465	\$	149,923

Additional information on the Port's capital assets can be found in Note 5 of Notes to Financial Statements.

Long-term Notes Payables: At the end of the current fiscal year, the Port had total long-term Notes Payables outstanding of \$51,105. Of this amount, \$21,453 comprises debt to the City of Wilmington incurred at the time of the acquisition of the Port by the State of Delaware from the City of Wilmington in 1995. The balance of \$29,652 is owed to the Delaware Department of Transportation (DelDOT) Transportation Trust Fund for funds borrowed during FY 2002 towards debt restructuring. In July 2004, the loan was restructured to defer debt service (principal and interest) due on January 1, 2004; July 1, 2004; and January 1, 2005. In July 2005, the loan was restructured again to allow for the deferral of debt service payments due on July 1, 2005, and January 1, 2006, and to amortize the repayment of the outstanding principal balance effective July 1, 2006 over the next twenty years. The interest rate of 4.6% remained unchanged. Interest capitalized as principal during fiscal year 2005 as part of the restructuring amounted to \$1,318.

Additional Information is available in Note 8 of Notes to Financial Statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	ASSETS	
	<u>2005</u>	<u>Restated 2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,449,461	\$ 1,672,521
Accounts receivable	2,901,830	2,624,511
Grant receivable	280,788	96,020
Inventory	538,746	540,030
Prepaid expenses and other assets	<u>375,115</u>	<u>680,327</u>
	7,545,940	5,613,409
RESTRICTED ASSETS		
Cash and cash equivalents	13,637,759	4,270,488
PROPERTY, PLANT AND EQUIPMENT, net	<u>150,464,957</u>	<u>149,923,394</u>
TOTAL ASSETS	<u>\$171,648,656</u>	<u>\$159,807,291</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

LIABILITIES AND NET ASSETS		
	<u>2005</u>	<u>Restated 2004</u>
CURRENT LIABILITIES		
Accounts payable	\$ 102,746	\$ 130,659
Accrued expenses	2,110,481	1,580,053
Accrued interest payable	463,702	494,028
Due to the State of Delaware – pension costs	76,301	73,140
Notes payable – City of Wilmington – current portion	2,984,943	3,300,589
Capital lease payable - current portion	31,962	31,546
Deferred revenue	<u>143,372</u>	<u>195,231</u>
	5,913,507	5,805,246
NOTES PAYABLE – Transportation Trust Fund	29,651,606	28,333,287
NOTES PAYABLE – City of Wilmington	18,468,286	21,400,408
CAPITAL LEASE PAYABLE	<u>-</u>	<u>31,962</u>
TOTAL LIABILITIES	54,033,399	55,570,903
NET ASSETS		
Invested in capital assets - net of related debt	99,328,160	96,825,602
Restricted		
Capital Improvement Fund	13,637,759	4,270,488
Unrestricted	<u>4,649,338</u>	<u>3,140,298</u>
TOTAL NET ASSETS	<u>117,615,257</u>	<u>104,236,388</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$171,648,656</u>	<u>\$159,807,291</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>Restated 2004</u>
OPERATING REVENUES		
Handling	\$ 12,169,892	\$ 11,199,461
Dockage and wharfage	6,633,235	5,947,114
Leasing	4,621,289	4,472,983
Storage	2,783,762	2,784,538
Other operating revenue	<u>1,535,783</u>	<u>1,303,476</u>
	27,743,961	25,707,572
OPERATING EXPENSES		
Salaries and benefits	15,250,720	14,425,144
Materials, supplies and contractual services	8,656,881	7,870,481
Depreciation expense	<u>4,343,568</u>	<u>4,321,685</u>
	28,251,169	26,617,310
OPERATING LOSS	(507,208)	(909,738)
NONOPERATING INCOME (EXPENSE)		
Interest expense	(2,260,795)	(2,627,755)
Interest income	157,600	28,403
Loss on disposition of assets	<u>-</u>	<u>(597,680)</u>
	(2,103,195)	(3,197,032)
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(2,610,403)	(4,106,770)
CAPITAL CONTRIBUTIONS		
State Bond Bill	14,500,000	5,015,000
Federal	<u>1,489,272</u>	<u>347,595</u>
	15,989,272	5,362,595
INCREASE IN NET ASSETS	13,378,869	1,255,825
NET ASSETS – BEGINNING, as previously reported	104,236,388	103,103,196
Prior period adjustment	<u>-</u>	<u>(122,633)</u>
NET ASSETS – BEGINNING, as restated	104,236,388	102,980,563
NET ASSETS - ENDING	<u>\$117,615,257</u>	<u>\$104,236,388</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	\$ 27,407,554	\$ 26,000,948
Cash payments to suppliers for goods and services	(7,015,552)	(6,332,472)
Cash payments to employees for services	(14,954,448)	(14,550,995)
Cash payments for insurance	<u>(1,302,968)</u>	<u>(1,367,916)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,134,586	3,749,565
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Acquisition and construction of capital assets	<u>(144,095)</u>	<u>(211,307)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(144,095)	(211,307)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,741,037)	(1,303,586)
Interest paid on loans and capital lease	(919,979)	(1,989,556)
Principal paid on loans	(3,300,590)	(3,980,026)
Payments on capital lease	(31,546)	(28,415)
Contributed capital	<u>15,989,272</u>	<u>5,362,595</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	6,996,120	(1,938,988)
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of investments (net)	-	2,888,965
Interest on cash and investments	<u>157,600</u>	<u>50,193</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>157,600</u>	<u>2,939,158</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,144,211	4,538,428
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,943,009</u>	<u>1,404,581</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 17,087,220</u>	<u>\$ 5,943,009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (507,208)	\$ (909,738)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	4,343,568	4,321,685
Net change in the allowance for doubtful accounts	(14,341)	(46,366)
(Increase) decrease in:		
Accounts receivable	(262,979)	229,888
Grants receivable	(184,768)	61,211
Prepaid expenses and other assets	305,212	(30,261)
Inventories	1,284	(30,261)
Increase (decrease) in:		
Accounts payable	(27,913)	62,821
Accrued expenses	530,429	(11,114)
Due to State of Delaware – pension costs	3,161	48,185
Deferred revenue	<u>(51,859)</u>	<u>53,515</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,134,586</u>	<u>\$ 3,749,565</u>
SUPPLEMENTAL SCHEDULES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Accretion of deferred loss	<u>\$ 52,821</u>	<u>\$ 53,183</u>
Interest capitalized	<u>\$ 1,318,319</u>	<u>\$ 1,259,707</u>
Loss on retirement of property, plant and equipment	<u>\$ -</u>	<u>\$ 597,680</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 ORGANIZATION

The Diamond State Port Corporation (the Corporation) was created on August 3, 1995 in accordance with the provisions of Section 24(1) of Senate Bill 260 enacted by the 138th General Assembly of the State of Delaware. The Corporation is a public instrumentality of the State of Delaware exercising essential government functions necessary in connection with the acquisition, establishment, construction, rehabilitation, improvement, operation, and maintenance of the Port of Wilmington (the Port) and related facilities. The Port was acquired by the Corporation on September 1, 1995. The Corporation is empowered without limitation, and notwithstanding any other laws, to adopt bylaws and rules and regulations to govern the conduct of its affairs and carry out and discharge its powers, duties, and functions, to sue and be sued, and to enter into contracts and agreements. The Corporation does not have power to tax, to issue bonds, to exercise the power of eminent domain, or to pledge the credit or create any debt or liability of the State of Delaware.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The accompanying financial statements of the Corporation have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). The Corporation (the reporting entity) is a component unit of the State of Delaware. The Corporation's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

The Corporation has adopted the provisions of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting, which provide for the consistent application of GASB pronouncements and only pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, except where those FASB pronouncements conflict with GASB pronouncements in which case the GASB pronouncements take precedence.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Corporation considers short-term investments with an original maturity of three months or less to be cash equivalents.

Short-Term Investments. Short-term investments are stated at cost, which does not exceed estimated net realizable value.

Grants Receivable. A grant receivable is recorded when the Corporation has a right to advances or reimbursements under a grant. The grant receivable of \$280,788 as of June 30, 2005, represents \$231,102 due from the U.S. Department of Homeland Security, Urban Areas Security Initiative Port Security Grant Program for improvements to port security and \$49,686 due from the U.S. Homeland Security, Transportation Security Administration for the Transportation Worker Identification Credentials Program office relocation and renovation.

Accounts Receivable. Accounts receivable are shown net of an allowance for doubtful accounts of \$57,363 and \$71,702 in 2005 and 2004, respectively.

Inventories. Inventories of equipment parts and marketing materials are stated at the lower of cost or market value.

Property and Equipment. The assets originally acquired by the Corporation in 1995 were recorded based on estimated fair values. The estimated fair value of land was determined based on an independent appraisal. The fair values of all other assets acquired were estimated to be the book value of those assets at the date of acquisition. Capital additions or improvements are recorded at cost, including those funded by federal or state grants. Additions and improvements in excess of \$3,000 are capitalized.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Depreciation is generally recorded using the straight-line method and half-year convention over the following estimated useful lives:

Improvements (all categories)	20-30 years
Buildings and warehouses	30-75 years
Docks, wharves, and rail	50-60 years
Equipment and cranes	6-40 years
Streets and utilities	20-40 years
Vehicles, systems, other	6 years

Revenues. The significant sources of operating revenue are:

Handling - represents charges against the owner of cargo for moving cargo into or out of storage, loading on or off trucks or railcars, or to or from a point of rest on the dock where it has been deposited.

Dockage and wharfage - represents charges assessed against vessels and barges for berthing at the wharf, pier, and bulkhead structures, handling lines for the docking and undocking of vessels, and represents charges assessed against vessels, or against another properly designated party, on all cargo passing or conveyed over, onto, or under wharves or between vessels when berthed at the wharf.

Leasing - represents fees charged on a contractual basis for the rental of land or buildings at the Port. Rates are determined on a contract-by-contract basis.

Storage - represents charges for the storage of cargo in the Port's dry, refrigerated and freezer warehouses and open areas.

Contributions of Capital. Contributions of capital arise from State and Federal contributions or from grants generally restricted to capital acquisition and construction. All capital grants and contributions are in the form of cash, which is then used to purchase capital assets, pay debt service, or fund other approved uses.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Compensated Absences. Regular full-time employees accrue vacation in varying amounts based on length of service. Employees can accumulate up to 200 hours, or 25 days of vacation time. Unused vacation time can be carried forward to the next benefit year in an amount up to the annual vacation amount. Upon termination, employees will be paid for unused vacation time.

Sick leave is earned by regular, full-time administrative employees at the rate of one day per month. Unused sick leave benefits accumulate indefinitely. Any sick leave hours unused will not be paid to employees while they are employed or upon termination of employment.

The liability for compensated absences through year-end, but not yet taken, is accrued.

Capital Leases. The discount rate used to impute the present value of the future minimum lease payments is the lower of the Corporation's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Deferred Loss. The Corporation incurred deferred losses on two refundings of the Port Debt Service Note in 2002 and 2005, which are being accreted over the remaining life of the Note at the time of each refunding.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, through subsequent events, actual results could differ from those estimated.

NOTE 3 CASH, INVESTMENTS AND RESTRICTED ASSETS

The Cash Management Policy Board: The Corporation follows the "Statement of Objectives and Guidelines for the Investments of State of Delaware", of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State with certain limited exceptions.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

CASH, INVESTMENTS AND RESTRICTED ASSETS (Cont'd.)

Investment Guidelines and Management:

The State's Cash Management Policy categorizes all cash and special purpose funds for which the State is financially accountable as follows:

- A. Cash Accounts: Divide the State's available cash into three parts:
 - 1) Collection and Disbursement Accounts,
 - 2) Cash and Liquidity Accounts,
 - 3) Reserve Cash (Intermediate) Accounts.
- B. Special Purpose Accounts. There are two primary types of Special Purpose Accounts:
 - 1) Endowment Accounts,
 - 2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts and Component Units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Corporation's accounts are considered Authority Accounts.

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances. The State's Cash Management Policy is available on the Internet at <http://www.state.de.us/treasure/information/cash.shtml>.

Custodial Credit Risk

Collateralization Requirements: All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

CASH, INVESTMENTS AND RESTRICTED ASSETS (Cont'd.)

return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- (a) U.S. Government securities;
- (b) U.S. Government agency securities;
- (c) Federal Home Loan Board letters of credit;
- (d) State of Delaware securities; or
- (e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2005, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above and the deposits held by those institutions did not require collateralization.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents, as reported on the statement of net assets, is under the control of the Corporation. The Corporation invests the deposited cash, including the cash float in short-term securities and other investments.

At June 30, 2005, the carrying value and the bank balances of the Corporation's deposits were \$17,087,220 and \$17,251,891, respectively. Of the bank balances, \$100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and \$17,151,891 is subject to custodial credit risk because it is uninsured and uncollateralized. However, it is held at financial institutions that satisfied the criteria listed above and not requiring collateralization.

Investments

At June 30, 2005, the Corporation held no investments.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 4 RESTRICTED ASSETS

Restricted assets and the purpose of the restriction are as follows:

	<u>2005</u>	<u>2004</u>
Capital improvements	<u>\$13,637,759</u>	<u>\$4,270,488</u>

Assets restricted for capital improvements consist of contributions from the State of Delaware. These assets are invested in money market accounts. They are considered to be cash equivalents.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment changes during 2005 consisted of the following:

	<u>2004</u>	Additions (Retirements)	<u>Transfers</u>	<u>2005</u>
Land	\$ 25,504,410	\$ -	\$ -	\$ 25,504,410
Land improvements	8,436,741	-	128,967	8,565,708
Buildings	66,092,064	-	272,810	66,364,874
Docks and wharves	44,793,447	-	260,283	45,053,730
Equipment	21,185,783	-	532,367	21,718,150
Streets and water utilities	3,709,606	-	285,097	3,994,703
Vehicles and other assets	<u>6,762,082</u>	<u>-</u>	<u>91,340</u>	<u>6,853,422</u>
Subtotal	176,484,133	-	1,570,864	178,054,997
Construction in progress	<u>68,607</u>	<u>4,885,132</u>	<u>(1,570,864)</u>	<u>3,382,875</u>
Total	176,552,740	4,885,132	-	181,437,872

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

PROPERTY AND EQUIPMENT (Cont'd.)

	<u>2004</u>	Additions (Retirements)	<u>Transfers</u>	<u>2005</u>
Accumulated depreciation:				
Land improvements	3,433,060	456,574	-	3,889,634
Building	10,089,411	1,392,145	-	11,481,556
Docks and wharves	4,392,516	1,061,314	-	5,453,830
Equipment	3,863,150	684,965	-	4,548,115
Streets and water utilities	1,073,389	149,195	-	1,222,584
Vehicles and other assets	<u>3,777,820</u>	<u>599,376</u>	<u>-</u>	<u>4,377,196</u>
Total	<u>26,629,346</u>	<u>4,343,569</u>	<u>-</u>	<u>30,972,915</u>
Net property and Equipment	<u>\$149,923,394</u>	<u>\$ 541,563</u>	<u>\$ -</u>	<u>\$150,464,957</u>

Depreciation expense was \$4,343,568 for 2005 and \$4,321,685 for 2004.

NOTE 6 LEASING REVENUE

The Corporation leases certain Port terminal and storage space to stevedoring and related tenants. Total rental income under these operating leases amounted to \$4,621,289 and \$4,472,983 for 2005 and 2004, respectively.

The following is a schedule of future minimum rentals under noncancelable operating leases as of June 30, 2005.

2006	\$ 3,902,198
2007	3,724,527
2008	3,714,643
2009	3,091,068
2010	2,416,180
Thereafter	<u>2,668,990</u>
	<u>\$19,517,606</u>

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 7 REVOLVING LINE OF CREDIT

On March 16, 2000 the Corporation obtained a \$3,000,000, unsecured, revolving line of credit from Wilmington Trust Company (WTC) none of which was outstanding at June 30, 2005 and 2004. Bank advances on the credit line are payable within 30 days of demand and carry an interest rate based on WTC's commercial rate index.

NOTE 8 LONG-TERM DEBT

Long-term debt changes during 2005 were as follows:

	<u>Outstanding June 30, 2004</u>	<u>Issued</u>	<u>Payments and Other Reductions</u>	<u>Outstanding June 30, 2005</u>
Transportation Trust Fund Note	\$28,333,287	\$1,318,319	\$ -	\$29,651,606
City of Wilmington Port Debt Service Notes	<u>24,700,997</u>	<u>-</u>	<u>3,247,768</u>	<u>21,453,229</u>
Total	<u>53,034,284</u>	<u>\$1,318,319</u>	<u>\$3,247,768</u>	<u>51,104,835</u>
Due in one year	<u>3,300,589</u>			<u>2,984,943</u>
Long-term portion	<u>\$49,733,695</u>			<u>\$48,119,892</u>

Transportation Trust Fund Loan. On November 30, 2001, the Corporation entered into a loan agreement with the Department of Transportation of the State of Delaware (DOT). The Corporation borrowed \$27,500,000. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note; and, at a discount, the City of Wilmington-Deferred Payment Note. In addition, the loan provided \$8,648,136 to establish a fund to be invested. This fund was restricted to pay portions of debt service as they became due. In 2004 the remaining funds were used for debt service. There were no funds restricted for debt service as of June 30, 2005 and 2004.

In July 2005, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2005, and January 1, 2006, and to restructure the repayment of the outstanding principal balance effective July 1, 2006 over the next twenty years. The interest rate of 4.6% remained unchanged. Beginning July 1, 2006, payments of principal and interest are due semi-annually over a twenty-year period. Interest capitalized as principal during fiscal year 2005 as part of the restructuring amounted to \$1,318,319.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

LONG-TERM DEBT (Cont'd.)

In July 2004, a similar restructuring occurred whereby the loan was restructured to allow for the deferral of debt service principle and interest payments due January 1, 2004, July 1, 2004 and January 1, 2005, and to restructure the repayment of the outstanding principle balance effective July 1, 2005 over the next twenty years. Interest capitalized as principal during fiscal year 2004 as part of the restructuring amounted to \$1,259,707.

Interest expense charged to operations in 2005 and 2004 was \$ 1,318,319 and \$1,259,707, respectively.

The future maturities of principal and interest payments on the Transportation Trust Fund Loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ -	\$ -
2007	951,536	1,384,527	2,336,063
2008	995,810	1,340,253	2,336,063
2009	1,042,144	1,293,919	2,336,063
2010	1,090,634	1,245,429	2,336,063
2011-2015	6,263,261	5,417,052	11,680,313
2016-2020	7,862,431	3,817,882	11,680,313
2021-2025	9,869,909	1,810,404	11,680,313
2026	<u>2,257,871</u>	<u>78,192</u>	<u>2,336,063</u>
	<u>\$30,333,596</u>	<u>\$16,387,658</u>	<u>\$46,721,254</u>

The schedule of future maturities above includes \$681,987 of interest to be capitalized as principal in fiscal year 2006 as part of the loan restructuring of 2005.

City of Wilmington. In consideration for the acquisition of the Port assets from the City of Wilmington, Delaware (the City), the Corporation issued to the City a Port Deferred Payment Note with an original amount of \$39,900,000 and a Port Debt Service Note with an original face amount of \$51,080,622, secured by a first lien on substantially all of the Corporation's assets.

- a. **Port Deferred Payment Note.** In 2002, the remaining amounts due were prepaid to the City using the proceeds from the Transportation Trust Fund Loan.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

LONG-TERM DEBT (Cont'd.)

- b. Port Debt Service Note. The Port Debt Service Note requires payments to the City, of amounts which equal the debt service of certain Port-related City general obligation bonds, with interest rates from 3.2% to 6.4%.

On October 5, 2004, the City issued \$12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund \$11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of \$161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were \$3,992,497 and \$3,594,635, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$397,862, it reduces the Corporation's debt service payments by \$251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2005 was \$397,401.

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.70% to advance refund \$21,335,000 of outstanding 1992 A, B and C Series general obligation bonds with an average interest rate of 6.16%. The Port-related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$261,619, it reduced the Corporation's debt service payments by \$281,293 over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven-year life of the debt. The deferred loss balance on the 2001 refunding as of June 30, 2005 and 2004 was \$70,436 and \$122,796, respectively.

Total deferred loss balance as of June 30, 2005 and 2004 was \$467,837 and \$122,796, respectively.

Principal and interest payments made on the notes during 2005 were \$3,300,589 and \$902,916, respectively. Interest expense in 2005 was \$872,590. Principal and interest payments made on the notes during 2004 were \$3,553,607 and \$1,313,344, respectively. Interest expense in 2004 was \$1,271,149.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

LONG-TERM DEBT (Cont'd.)

The future maturities of principal and interest payments on the Port Debt Service Note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,984,943	\$ 1,002,396	\$ 3,987,339
2007	3,155,684	827,417	3,983,101
2008	3,301,597	676,190	3,977,787
2009	2,291,194	540,904	2,832,098
2010	2,405,172	423,648	2,828,820
2011-2015	4,571,989	1,179,953	5,751,942
2016-2020	2,252,842	388,160	2,641,002
2021-2025	957,645	60,584	1,018,229
Deferred loss on refunding	<u>(467,837)</u>	<u>-</u>	<u>(467,837)</u>
Total	<u>\$21,453,229</u>	<u>\$ 5,099,252</u>	<u>\$26,552,481</u>

NOTE 9 CONTRIBUTED CAPITAL

Since its inception, the Corporation has received capital and other contributions from the State of Delaware and Federal grants as follows:

	<u>Inception to Date</u>	<u>2005</u>	<u>2004</u>
State of Delaware	\$122,165,000	\$14,500,000	\$5,015,000
Federal	<u>2,882,163</u>	<u>1,489,272</u>	<u>347,595</u>
Total	<u>\$125,047,163</u>	<u>\$15,989,272</u>	<u>\$5,362,595</u>

The Federal capital contribution of \$1,489,272 in 2005 represents the amount expended by the Corporation during 2005 under U.S. Department of Homeland Security grants (See Note 2).

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 10 PENSION PLAN

Plan Description. The Diamond State Port Corporation Pension Plan (the Plan) is a single-employer defined benefit pension plan which covers all employees of the Corporation. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. A member may retire after completing five years of service and after reaching normal retirement age of sixty-five. Benefits vest after five years of credited service at 50%, then increasing by 10% per year and fully vesting after ten years. If an employee terminates his or her employment after at least five years of credited service but before normal retirement age, he or she may defer pension benefits until reaching retirement age. Employees who retire after reaching normal retirement age with at least five years of credited service are entitled to receive pension benefits equal to 1.75% of their final average monthly compensation multiplied by the years of credited service (not to exceed 30 years).

Disability benefits are generally the same as pension benefits, however, employees must have 15 years of credited service, subject to certain limitations. Survivors' benefits are generally equal to 50% of the pension benefit the employee would have received at age sixty-five if at least 15 years of credited service are obtained.

The Delaware Public Employees' Retirement System, which administers the Diamond State Port Corporation Pension Plan, issues a publicly available financial report, including financial statements and required supplementary information. The report may be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402, or by calling 1-800-722-7300.

Funding Policy. Contribution requirements are determined by the State Board of Pension Trustees principally based on an actuarially determined rate. Plan members are required to contribute 2% of their compensation.

Annual Pension Cost and Net Pension Obligation. The Corporation contributed 100% of its annual required contribution during the fiscal years 2005, 2004 and 2003. Accordingly, there was no net pension obligation as of June 30, 2005, 2004 and 2003. The annual pension cost was equal to the annual required contribution of \$356,596 in 2005, \$391,162 in 2004, and \$325,131 in 2003.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

PENSION PLAN (Cont'd.)

The annual required contribution for the current year was determined as part of the June 30, 2004 actuarial valuation (the most recent available valuation) using the Entry Age Normal Actuarial Cost method. The actuarial assumptions included (a) 8.00% investment rate of return and (b) projected salary increases of 4.8% which included an inflation component. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was 18 years.

The following provides an analysis of the funding progress of the Plan as of June 30, 2004, 2003, and 2002:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratios (1)/(2)	(5) Annualized Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3)/(5)
June 30, 2004	\$8,140,000	\$9,049,000	\$ 909,000	90.0%	\$8,950,000	10.2%
June 30, 2003	\$7,328,000	\$7,056,000	\$(272,000)	103.9%	\$8,636,000	(3.1)%
June 30, 2002	\$6,675,000	\$6,617,000	\$ (58,000)	100.9%	\$9,354,000	(0.6)%

Contribution requirements are determined by the State Board of Pension Trustees and the Corporation has contributed 100% of the required amounts.

NOTE 11 LEASE COMMITMENTS

Capital Lease. The Corporation leases high-speed freezer doors under capital leases expiring in 2006. Depreciation of assets under capital leases is included in depreciation expense. The cost of assets under capital leases was \$142,389 at June 30, 2005 and 2004. Accumulated depreciation was \$42,717 and \$33,224 at June 30, 2005 and 2004, respectively.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

LEASE COMMITMENTS (Cont'd.)

Minimum future annual rentals are as follows:

2006	<u>\$33,665</u>
Total minimum lease payments	33,665
Less: interest portion included in payments	<u>1,703</u>
Present value of minimum lease payments	<u>\$31,962</u>

The present value of the future minimum lease payments is calculated using a discount rate of 10.5%.

Operating Leases. The Corporation leases forty forklifts and a number of other vehicles under five year operating leases expiring in 2007. Rental payments for 2005 were \$304,830.

Minimum future annual rentals are as follows:

	<u>Operating Leases</u>
2006	\$ 296,230
2007	118,674

The Corporation also leases various equipment and outside storage space on a short-term basis for its operations. Rental expense was \$ 677,193 and \$788,943 for 2005 and 2004, respectively.

NOTE 12 RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries and illnesses to employees, and natural disasters. The Corporation has obtained commercial insurance to cover the risk of these losses with the exception of workers' compensation claims, where the Corporation is self-insured through the State of Delaware's self-insurance program. Settled claims have not exceeded the commercial insurance limits in any of the past five fiscal years. The Corporation was obligated to pay to the State's program a monthly charge equal to \$1.23 and \$1.22 per \$100 of payroll which was \$143,886 and \$124,207 for the years ended June 30, 2005 and 2004, respectively.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 13 DEFERRED COMPENSATION PLAN

The Corporation offers all full-time employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until a future time. The employee may withdraw funds upon termination of the employment relationship with the Corporation, retirement, death, or unforeseeable financial hardship. The Corporation does not make contributions to the plan.

Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. The Corporation has very little administrative involvement, performs no investing function, and has no fiduciary responsibility for this plan. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants and are not subject to claims of the Corporation's creditors. Accordingly, these plan assets are not reported as a part of these financial statements.

NOTE 14 MAJOR CUSTOMERS

Two major customers of the Corporation combined to account for approximately 34.4% of operating revenues for the year ended June 30, 2005, and 38.4% for the year ended June 30, 2004.

NOTE 15 COLLECTIVE BARGAINING

The Corporation employs 274 full-time and part-time benefits eligible employees. Sixty-three (63) full-time employees are represented by the International Longshoreman's Association - Local 1694-1, under a collective bargaining agreement which expired September 30, 2004 and is currently being renegotiated. One-hundred forty-four (144) part-time employees (only those working over 800 hours in a calendar year) are also represented by the International Longshoremen's Association - Local 1694-1, under the same collective bargaining agreement. Eleven (11) full-time employees are represented by the International Brotherhood of Teamsters - Local 326, under a collective bargaining agreement. There are fifty-six (56) administrative employees not covered under collective bargaining agreements. The Corporation also employs a number of casual employees hired as needed on a daily basis to supplement the unionized work force that are not covered by a collective bargaining agreement.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 16 COMMITMENTS AND CONTINGENCIES

Construction and Renovation Contracts. The Corporation has various contracts for construction and renovation of significant facilities located on its property at the Port in accordance with the Capital Budget approved by its Board of Directors. As of June 30, 2005 the Corporation had construction in progress of approximately \$3,382,875. Funding for capital projects has been received from operations, the State of Delaware and the U.S. Department of Homeland Security. As of June 30, 2005, the Corporation had \$13,637,759 in cash and equivalents committed to capital projects.

Environmental Contingencies. Under the provisions of the Port of Wilmington Acquisition Agreement dated September 1, 1995, the City retains responsibility for all liabilities under environmental laws that arise out of, or result from, any condition existing at the Port on or before, the agreement closing date, September 8, 1995.

On February 14, 2002, the Agreement was amended and in conjunction with the prepayment of the Port Deferred Payment Note, the Corporation agreed to assume responsibility for \$2,000,000 of potential environmental liabilities. To date, no such liabilities have been identified.

Litigation and Claims. The Corporation is party to various claims and legal proceedings which normally occur in governmental and port operations. These claims and legal proceedings are not likely to have a material adverse impact on the Corporation. In addition, the Corporation currently has approximately \$290,000 accrued for pending claims or threatened litigation for which unfavorable outcome is considered probable. The amount of the accrual is based on the Corporation's experience, insurance coverages, legal opinions and other factors.

NOTE 17 RESTATEMENT

During fiscal year 2005, the Corporation began accruing holiday pay for ILA Union members which is paid annually each November, thus changing from the cash basis of accounting for the holiday pay to the accrual basis of accounting. As a result, the 2004 statements have been restated to reflect an increase in accrued expenses and a decrease in beginning unrestricted net assets at June 30, 2004 in the amount of \$122,633.